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MEMORANDUM

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AZ CORP COMMISSION
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Arizona Corporation Commission
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TO: THE COMMISSION

FROM: Utilities Division

DATE: April 22, 2008

RE: IN THE MATTER OF THE ARIZONA ELECTRIC POWER COOPERATIVE, INC.'S REQUEST FOR REVIEW OF FPPCA EFFICACY AND IMPLEMENTATION OF ALTERNATE ADJUSTOR RATES (DOCKET NOS. E-01773A-04-0528 AND E-04100A-04-0527)

On February 29, 2008, the Arizona Electric Power Cooperative, Inc. ("AEPCO" or "the Cooperative") made two simultaneous filings in Docket Nos. E-01773A-04-0528 and E-04100A-04-0527 regarding its Fuel and Purchased Power Cost Adjustor ("FPPCA" or "adjustor") rate established in Decision No. 68071, August 17, 2005. The first is the Cooperative's "standard" semi-annual tariff and schedule filing to revise its FPPCA rates for partial-requirements members ("PRMs") and for all-requirements members ("ARMs") to become effective April 1, 2008. The second is a request by AEPCO for review of its FPPCA efficacy and implementation of alternate adjustor rates, the subject of this memorandum.

On March 28, 2008, AEPCO refiled both its standard semi-annual tariff and schedules to revise its FPPCA rates for April 1, 2008, and its filing to request a review of its FPPCA efficacy and implementation of alternate adjustor rates ($0.014760 per kWh for ARMs, $0.013050 per kWh for PRMs). These filings were made to correct errors discovered in the February 29, 2008, filings. The error corrections resulted in only a slight increase in the requested ARM adjustor rate and a slight decrease in the requested PRM adjustor rate in comparison with those filed on February 29, 2008.

Also on March 28, 2008, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") filed a response to AEPCO's request for review of its FPPCA efficacy and implementation of alternate adjustor rates. SSVEC supports AEPCO's FPPCA efficacy request, but disagrees with AEPCO's methodology to allocate its fuel and purchased power costs to members of the PRM and ARM groups. SSVEC requests the Commission require AEPCO to revise and true-up its allocation methodology in its next semi-annual FPPCA rate filing.

On April 1, 2008, Mohave Electric Cooperative, Inc. ("Mohave") filed a response to AEPCO's February 29, 2008, FPPCA rate filings and subsequent revisions to those filings on March 28, 2008. In its filing, Mohave requests the underlying costs and allocation methodologies utilized by AEPCO in calculating the FPPCA be fully reviewed, and that Mohave be allowed to participate in such review.

On April 4, 2008, AEPCO, in separate filings, replied to SSVEC's and Mohave's respective responses. AEPCO opposes SSVEC's request to implement a different way of assigning cost responsibility among its members prior to the next rate case. AEPCO also opposes Mohave's request to review AEPCO's FPPCA underlying costs and allocation methodologies at this time. AEPCO requests that the Commission deny the SSVEC and Mohave requests, and suggests that a review of the FPPCA in AEPCO's planned 2009 rate case would be a more appropriate forum to examine these concerns.

On April 8, 2008, SSVEC filed a response to AEPCO's reply. SSVEC believes that it is not necessary or appropriate for it to have to wait until the conclusion of the next rate case before AEPCO allocates costs between its members consistent with actual fuel and purchased power expenses attributable to the respective members and classes. SSVEC requests that the Commission issue an Order in accordance with SSVEC's initial response.

BACKGROUND

AEPCO is a non-profit, member-owned generation cooperative that supplies all or most of the power and energy requirements of its five Arizona and one California member distribution cooperatives. AEPCO supplies all requirements to the following members: Anza Electric Cooperative, Inc. (California); Duncan Valley Electric Cooperative, Inc.; Graham County Electric Cooperative, Inc.; and Trico Electric Cooperative, Inc. Mohave and SSVEC are its only partial-requirements members. SSVEC had previously been an ARM but became a PRM effective January 2008.

Prior to Commission Decision No. 68071 in AEPCO's last rate case, AEPCO did not have an FPPCA. The rate case decision provided for AEPCO to add an adjustor component to its rates with an initial adjustor rate reset from zero to occur on October 1, 2006. Decision No. 68594, March 23, 2006, accelerated the initial reset of AEPCO's FPPCA rate by six months from October 1, 2006, to April 1, 2006. Decision No. 68071 provided for the FPPCA rate to be reset every six months on April 1 and October 1 of each year.

In establishing the AEPCO adjustor mechanism in Decision No. 68071, the Commission also acknowledged the possibility that the recovery of fuel and purchased power costs under the FPPCA may be outpaced by the rate of future fuel and purchased power cost increases. For that reason, the Commission included an additional provision in the Order allowing AEPCO to request the Commission review the efficacy of its FPPCA when AEPCO submits any semi-annual FPPCA report.

On February 27, 2007, AEPCO requested that the Commission review the efficacy of the FPPCA because of its concern that the FPPCA was not allowing it to make meaningful progress in reducing its under-collected bank balance. Staff noticed that the bank balance was beginning to decline and did not recommend action on AEPCO's request at that time so that it could be determined if the adjustor rate was going to significantly reduce the under-collection without further action by the Commission. Indeed, the bank balance did decline each of the seven months beginning in December 2006 and continuing through June 2007. AEPCO, also noting that progress was being made in recovering the bank balance, withdrew its request for FPPCA efficacy review on September 13, 2007.

Because of a two- to three-month lag in the data, neither Staff nor AEPCO recognized that the monthly FPPCA reports would reflect another precipitous bank balance increase beginning in July 2007 and climbing to a record high of $11.8 million under-collected in September 2007.

AEPCO's FPPCA bank balance has been under-collected every month since the inception of the adjustor. Separate adjustor rates are set for ARM and PRM members, and separate bank balances are maintained for these two classifications. However, the two classifications of bank balances tend to follow similar patterns of fluctuations. Table 1 illustrates the combined ARM and PRM FPPCA bank balances from September 2005 through January 2008, the most recent FPPCA report available.

Table 1

Arizona Electric Power Cooperative, Inc. Monthly FPPCA Bank Balance (millions of $)												
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
2005									$1.7	$3.7	$7.7	$7.4
2006	$7.9	$7.3	$7.0	$5.2	$4.6	$5.3	$7.1	$8.4	$8.6	$10.0	$11.2	$11.1
2007	$10.1	$8.7	$7.4	$6.3	$5.9	$5.8	$8.1	$11.0	$11.8	$10.6	$9.2	$5.6
2008	$4.9											
Positive number represents under-collected balance												

Decision No. 68071 established separate base costs of purchased power for the ARM and the PRM classes of membership. The ARM base cost of purchased power was set at $0.016870 per kWh and the PRM base cost of purchased power was set at $0.016030 per kWh. Table 2 depicts FPPCA rates that have been used by AEPCO since the inception of the adjustor mechanism with other adjustor information.

Table 2

Arizona Electric Power Cooperative, Inc. Fuel and Purchased Power Rate Components (August 2005 through Present and Proposed)		
	All-Requirements Members	**Partial-Requirements Members**
Base Cost of Purchased Power:	$0.016870 per kWh	$0.016030 per kWh
FPPCA Rate:		
August 2005 – September 2005	$0.000000 per kWh	$0.000000 per kWh
October 2005 – March 2006	$0.000000 per kWh	$0.000000 per kWh
April 2006 – September 2006	$0.008810 per kWh	$0.007280 per kWh
October 2006 – March 2007	$0.009440 per kWh	$0.008400 per kWh
April 2007 – September 2007	$0.013130 per kWh	$0.011980 per kWh
October 2007 – March 2008	$0.012680 per kWh	$0.012080 per kWh
April 2008 – September 2008	$0.012720 per kWh	$0.011050 per kWh
Proposed Alternate Rates	$0.014760 per kWh	$0.013050 per kWh

ANALYSIS

The instant AEPCO request for review of FPPCA efficacy and implementation of alternate adjustor rates was docketed on February 29, 2008, and amended on March 28, 2008, about one year after the Cooperative's initial efficacy request on February 27, 2007. The request in 2007 and the current request are similar. Again, AEPCO cites the reason for its request is the persistent under-collection of its fuel and purchased power expenses. The relief sought in both cases is to make a minor change to an adjustor component calculation that would accelerate the recovery of the accumulated bank balance.

AEPCO's semi-annual adjustor rate calculation for its ARM class of customers and for its PRM class of customers consists of two parts. The Power Cost ("PC") component consists of the Commission-allowed fuel, purchased power, and wheeling costs in dollars per kWh rounded to the nearest one-thousandth of a cent ($0.00001). This component is based on a rolling historical 12 months of fuel, purchased power, and wheeling costs for each class divided by the kWh energy sales to that same class during the same 12 months. The Bank Account ("BA") component of the adjustor rate consists of over-collected or under-collected allowable accumulated fuel and purchased energy costs in dollars per kWh, rounded to the nearest one-thousandth of a cent ($0.00001). This component of the adjustor rate for ARMs and for PRMs consists of the under-recovered or over-recovered bank balance dollars divided by the same 12-months kWh energy sales figure that was used in the PC component. The adjustor rate for the ARM class and for the PRM class are calculated by adding the PC and the BA components for the respective class, and subtracting the respective base cost of purchased power.

The change AEPCO is requesting is to calculate both a new ARM adjustor rate and a new PRM adjustor rate that would achieve a more rapid amortization of the bank balance. The way AEPCO proposes to accomplish this is to slightly alter the BA calculation of the adjustor rate by dividing the over-collected or under-collected bank balance dollars by the most recent six months of kWh energy sales, instead of 12 months kWh energy sales, as has been done in the past. The PC component calculation methodology would not change.

Staff believes that the calculation methodology changes proposed by AEPCO are reasonable, and that they would accelerate the recovery of bank balances to some extent. As they are still historical-based, they may not totally remove AEPCO's under-collected balance in an environment of increasing fuel and purchased power costs. The proposed changes could also have the effect of slightly increasing the volatility of the adjustor rates from one six-month period to the next in the short term. However, as the bank balance becomes smaller, the amount of the adjustor rate BA component will decrease in magnitude, and thus mitigate any volatility increase.

Because Staff believes the calculation method changes are reasonable, Staff's investigation, therefore, concentrates on 1) the appropriateness of changing the ARM and PRM adjustors at this time, and 2) the necessity or desirability to change the ARM and PRM adjustors.

Decision No. 68071 authorized AEPCO's adjustor. Finding 36 of that Order stated in part, "we are concerned with the possibility that AEPCO's recovery of fuel and purchased power costs under Staff's proposed FPPCA may nonetheless be outpaced by the rate of future fuel and purchased power cost increases. Therefore, we will approve the FPPCA on the terms agreed to by the parties, but in so doing, we will attach an additional condition allowing AEPCO to request the Commission to review the efficacy of the FPPCA when AEPCO submits any semi-annual FPPCA report as required elsewhere in this Decision." The fifth and sixth ordering paragraphs stated "IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall amend its tariffs to include a Fuel and Purchased Power Adjustor as described herein." "IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. may file a request that the Commission review the efficacy of the FPPCA with Arizona Electric Power Cooperative, Inc.'s submission of any semi-annual FPPCA report required by this Decision."

AEPCO's request for review of FPPCA efficacy was filed with the Cooperative's semi-annual FPPCA report filing. Staff, therefore, believes AEPCO's request is in accordance with Decision No. 68071. Staff believes that the intent of the FPPCA provisions of the Decision was to allow timely recovery of fuel and purchased power costs without the time and expense of a full rate proceeding. To the extent that the proposed changes are only minor adjustments to the current methodology to allow the FPPCA to better accomplish its objectives, Staff believes that implementation of the proposed changes can be accomplished through this procedure.

In examining the need for a change in the adjustor rate calculation to accelerate the recovery of accumulated bank balances, Staff observed that AEPCO's bank balance has improved significantly in recent months (see Table 1). The following observations are noted:

1. AEPCO's bank balance has dropped each month from its high point of $11.8 million under-collected in September 2007 to $4.9 million under-collected in January 2008, the most recent report available.

2. The January 2008 bank balance of $4.9 million is less than half of the January 2007 bank balance of $10.1 million.

3. The bank balance in 2007 dropped each month from its January level through June 2007, as it did from January 2006 through May 2006.

In spite of the recent gains, carrying a bank balance of even $4.9 million is a continuing burden on the Cooperative and its customers; however, carrying a $4.9 million balance is better than carrying an $11 million balance. The persistence of the bank balance demonstrates that the current adjustor rate methodology, while helping to lessen the burden, will not reduce the bank balance to near zero for a significant length of time in a continuing environment of escalating fuel and purchased power costs. It is clear that AEPCO's proposed change to accelerate recovery will not change the inherent lagging tendency of the methodology. A completely different methodology may be needed to accomplish that, but that type of change is not an issue for the instant proceeding. However, implementation of AEPCO's proposed changes to the amortization of the bank balance could speed the recovery of the bank balance and lessen its burden on the Cooperative and its customers. Staff concludes that adopting the proposed change could help mitigate the persistent bank balance problem, but will not completely resolve the problem.

The bank balance demonstrates some seasonal fluctuation and can be expected to generally decrease from November through early summer, and then to increase through the summer and fall months, all other variables being constant. Staff believes this is a net result of fluctuations in kWh volumes and seasonal increased costs of power during periods of higher demand. However, the dynamics of AEPCO's projected bank balances in the future is driven primarily by increases in the Cooperative's future cost for fuel and purchased power based upon new long-term purchased power contracts and fuel costs. AEPCO has three new long-term purchased power contracts totaling 25 to 40 MW beginning in May 2008, all at significantly higher cost than its long-term contracts that just expired. The Cooperative estimates its new purchased power contracts are approximately 18 percent higher in cost than the contracts it used in 2007. AEPCO's long-term coal contract expires in 2008 and may result in coal and coal transportation cost increases of 30 percent to 40 percent beginning January 2009. The Cooperative has the capacity to generate about 350 MW from coal and about 95 MW from gas.

Following is a forecast of AEPCO's bank balance using both the current amortization and the proposed accelerated amortization methods. The numbers were developed by AEPCO and are based on AEPCO board-approved financial forecast rates. Known new contract fuel and purchased power prices, and estimated prices where not yet under contract, have been factored into the forecasts. The forecast is based on the actual known historical bank balance number for January 2008.

Table 3

Arizona Electric Power Cooperative, Inc. Forecast FPPCA Bank Balances - Current Method and Proposed Method Actual January 2008, Forecast February 2008 – December 2009 (millions of $)				
	Month	**Current Method**	**Proposed Method**	**Reduction Using Proposed Method**
2008	January	$4.9	$4.9	
	February	$3.1	$3.1	
	March	$4.4	$4.4	
	April	$5.5	$5.1	$0.4
	May	$4.9	$4.1	$0.8
	June	$6.2	$4.9	$1.3
	July	$8.1	$6.3	$1.8
	August	$9.9	$7.5	$2.4
	September	$10.9	$8.0	$2.9
	October	$9.6	$6.4	$3.2
	November	$7.8	$4.4	$3.4
	December	$5.7	$1.9	$3.8
2009	January	$7.3	$3.1	$4.2
	February	$8.5	$4.0	$4.5
	March	$12.4	$7.6	$4.8
	April	$12.9	$8.3	$4.6
	May	$14.6	$10.2	$4.4
	June	$17.4	$13.2	$4.2
	July	$21.3	$17.3	$4.0
	August	$25.1	$21.3	$3.8
	September	$27.5	$23.9	$3.6
	October	$26.1	$21.8	$4.3
	November	$24.4	$19.4	$5.0
	December	$22.9	$17.2	$5.7

Staff requested and received a second analysis from AEPCO comparing the bank balance that has actually accumulated from the inception of the adjustor mechanism through 2007 to that which it would have been, had the Cooperative's accelerated method of recovering its bank balance been in effect the entire period. The results are that the bank balance in December 2007 would have been $0.5 million instead of $5.6 million. The interest cost to carry the bank balance at prevailing RUS[1] rates over the period was $1,233,895.03. Had the accelerated bank balance amortization method been used over the same period, it would have been applied to lower bank

[1] Residential Utilities Service – a federal government agency under the U.S. Department of Agriculture charged with helping provide reliable affordable electricity to rural areas. One RUS program makes direct loans and loan guarantees to electric utilities to serve customers in rural areas.

balances each month resulting in a lower interest cost of $713,600.46 and a savings of $520,294.57 in interest expense. The interest saved could have resulted in slightly lower rates for AEPCO's members in the longer term, as those interest expenses ultimately are borne by ratepayers.

The analysis provided by AEPCO also demonstrated that the adjustor rates need to be slightly higher initially to provide the accelerated recovery of the bank balance, but by the end of the analysis, the adjustor rates are lower because there is lower bank balance to be recovered through the adjustor rates. This is consistent with AEPCO's current proposal that requests alternate adjustor rates that are about 2 mills higher than current adjustor rates as shown in Table 4.

Table 4

Arizona Electric Power Cooperative, Inc. Proposed FPPCA Rate Increase (Proposed Alternate Adjustor Rates over Current Adjustor Rates)		
	All-Requirements Members	**Partial-Requirements Members**
October 2007 – March 2008	$0.012680 per kWh	$0.012080 per kWh
April 2008 – September 2008	$0.012720 per kWh	$0.011050 per kWh
Proposed Alternate Rates	$0.014760 per kWh	$0.013050 per kWh
Proposed Increase Over April	$0.002040 per kWh	$0.002000 per kWh
Residential Bill at 750 kWh	+$1.53 per Month	+$1.50 per Month
Proposed Increase Over Oct.	$0.002080 per kWh	$0.000970 per kWh
Residential Bill at 750 kWh	+$1.56 per Month	+$0.73 per Month

The effect of AEPCO's proposed alternate adjustor rates on ultimate residential customers' bills at 750 kWh per month would be about $1.50 per month when compared to the rate currently in effect. However, the April 1 adjustor rate currently in effect has not yet trickled down to ultimate residential customers of AEPCO's distribution members. When compared to the October 1 adjustor rate, the proposed increase is similar for the all-requirements members' customers and is about half that amount for partial-requirements members' customers.

Because of the minor increase in the all-requirements adjustor rate on April 1, the decrease in the partial-requirements adjustor rate for the same time period, and the possibility of new alternate rates based on a Commission Decision in this matter, Staff and AEPCO agreed that it would be best to delay notice to customers until after the Commission acts on this item. Under these circumstances where two sets of revised adjustor rates may take effect in rapid succession, both parties believe it is consistent with the Plan for Administration to delay the notice and to send only one notice reflecting the final approved adjustor rates. Sending one notice reflecting the final approved adjustor rates will not only reduce costs, but will also avoid possible customer confusion associated with receiving two different notices in short succession.

Staff believes at least three reasons exist that suggest this would be a good time to implement alternate adjustor rates based on the accelerated bank balance amortization method, if the Commission were inclined to do so: 1) the adjustor rates implemented April 1 were almost flat for all-requirements members and decreased for partial-requirements members, so the impact to customers of adding approximately two mills to each rate for accelerated bank balance amortization would not be as great as it may have been if added on to an already sizeable increase, and 2) AEPCO's new purchased power contracts, which are approximately 18 percent higher in cost than the contracts used in 2007, will be used beginning in May 2008 to meet summer peaking needs, and 3) historically, July through November is a period of seasonally increasing under-collected bank balances.

STAFF SUMMARY AND RECOMMENDATION

Staff does not believe that AEPCO's proposed accelerated amortization of the accumulated bank balance in the FPPCA calculation will completely eliminate AEPCO's persistently under-collected bank balance problem. However, Staff does believe adoption of this minor change in the FPPCA calculation will help recover the accumulated bank balances more rapidly. Staff further believes that this is a measure that can be instituted now to help mitigate the lingering bank balance problem, and thus, reduce interest charges that customers would ultimately have to pay. Furthermore, Staff does not believe that implementation of the accelerated method would have long-term negative consequences.

Staff believes that implementation of AEPCO's proposed accelerated bank balance calculation method will decrease under-collected bank balances, decrease the Cooperative's interest expense, lower the cost of service by lowering interest expense and ultimately lower the adjustor rates, and slightly decrease short-term borrowing pressures on the Cooperative.

Therefore, Staff recommends that the Commission authorize AEPCO to change its adjustor rates to the alternate adjustor rates of $0.014760 per kWh for its all-requirements members and $0.013050 per kWh for its partial-requirements members, effective June 1, 2008, (such rates calculated using the accelerated bank balance amortization method described elsewhere in this memorandum). Staff also recommends that AEPCO continue to calculate its new adjustor rates each six months using its accelerated bank balance amortization method described elsewhere in this memorandum, until further order of the Commission.

COSTS AND COST ALLOCATION METHODS

SSVEC and Mohave have filed responses to AEPCO's request for review of its FPPCA efficacy and implementation of alternate adjustor rates. Both SSVEC and Mohave achieved intervenor status in AEPCO's last rate case, filed in this docket, which set up AEPCO's FPPCA as described in Decision No. 68071. Both SSVEC and Mohave are partial-requirements AEPCO members. Both have expressed concern with the method by which AEPCO allocates fuel and purchased power costs between all-requirements and partial-requirements members. The PRM members believe AEPCO's method allocates costs without regard to cost differences arising from the time the kWh are taken.

SSVEC believes that AEPCO is allocating higher natural gas fuel costs to the PRMs when the PRMs are scheduling primarily lower cost coal-generated power, resulting in the PRMs paying higher rates and subsidizing the ARMs.

SSVEC requests the Commission issue an order granting AEPCO's efficacy request for alternate rates, but subject to true-up. It also requests the Commission require AEPCO to file as part of its September 1, 2008 filing for the October 1, 2008 adjustor rate reset 1) a fully detailed methodology that fairly and appropriately allocates fuel and purchased power costs between the individual members of the PRM classes and individual members of the ARM classes consistent with actual fuel and purchased power expenses attributable to the respective members and classes, and 2) true-up calculations adjusting the fuel bank account as if the above methodology had been in effect on April 1, 2008 (the date that AEPCO started charging SSVEC for fuel and purchased power as a PRM pursuant to Decision No. 70105.) SSVEC believes it is not necessary or appropriate for it to have to wait until the conclusion of AEPCO's next rate case before the Cooperative allocates costs between its members consistent with actual fuel and purchased power expenses attributable to the respective members and classes.

Mohave does not request that the Commission delay implementation of any of the relief requested by AEPCO in its efficacy request. It does, however, request additional affirmative relief. In particular, Mohave requests the underlying costs and allocation methodologies utilized by AEPCO in calculating the FPPCA be fully reviewed and that Mohave be allowed to participate in such review, to ensure that the FPPCA is being implemented in a fair and equitable manner consistent with Decision No. 68071 and AEPCO's contractual obligation to Mohave. Mohave requests the Commission 1) Order AEPCO to participate in a complete review of the operation of its FPPCA and authorize Mohave to participate in such review with Staff, and 2) grant such further relief as the Commission deems just and appropriate.

AEPCO has replied to the responses of both SSVEC and Mohave stating 1) that their requests are an impermissible collateral attack on the rate case Decision, 2) that AEPCO does not currently have, and will not have for about a year, the ability to track and allocate data in the way SSVEC and Mohave think costs should be assigned, 3) that the use of revised FPPCA adjustors would create an inherent mismatch between base and adjustor rates, and 4) that the Commission has already ordered a review of AEPCO's FPPCA in next year's rate case, and that forum is the appropriate and legally required manner in which to take up such a review. AEPCO requests that the Commission deny the SSVEC and MEC requests and authorize, as soon as possible, revised adjustor rates of 14.76 mills per kWh and 13.05 mills per kWh for its all- and partial-requirements members respectively.

Both SSVEC and Mohave are generally supportive of AEPCO's request for a FPPCA efficacy review and implementation of alternate rates, and Mohave specifically stated that it was not requesting the Commission delay implementation of any of the relief requested by AEPCO.

Staff believes that AEPCO's application needs to be dealt with in a timely fashion for reasons stated elsewhere in this document, and that the scope of the investigation that may be needed to adequately research and resolve the issues brought forward by SSVEC and Mohave could take many months.

Staff further believes that the concerns brought forward by SSVEC and Mohave deserve a full and comprehensive review by all parties that have an interest in AEPCO's FPPCA. Staff is concerned that issues under question strike at some of the basic underlying principles of AEPCO's FPPCA methodology. If problems are found, potential solutions could require major changes to the adjustor mechanism and could result in shifting potentially millions of dollars from one class of membership to the other class of membership. AEPCO is required by Decision No. 68071, August 17, 2005, to file a rate case six months after SSVEC has completed a full calendar year as a partial-requirements member, or not later than five years after the effective date of Decision No. 68071, whichever is earlier. This would suggest that AEPCO must file a rate case by July 1, 2009. Staff believes the issues brought up by SSVEC and Mohave could more appropriately be addressed in a rate case in which all interested parties could participate.

Ernest G. Johnson
Director
for Utilities Division

EGJ:JDA:lhm\JMA

ORIGINATOR: Jerry D. Anderson

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE ARIZONA ELECTRIC POWER COOPERATIVE'S REQUEST FOR REVIEW OF FPPCA EFFICACY AND IMPLEMENTATION OF ALTERNATE ADJUSTOR RATES	DOCKET NOS. E-01773A-04-0528 E-04100A-04-0527 DECISION NO. ___________ <u>ORDER</u>

Open Meeting
May 6 and 7, 2008
Phoenix, Arizona

BY THE COMMISSION:

<u>FINDINGS OF FACT</u>

1. Arizona Electric Power Cooperative, Inc. ("AEPCO" or "the Cooperative") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. On February 29, 2008, the AEPCO made two simultaneous filings in Docket Nos. E-01773A-04-0528 and E-04100A-04-0527 regarding its Fuel and Purchased Power Cost Adjustor ("FPPCA" or "adjustor") rate established in Decision No. 68071, August 17, 2005. The first is the Cooperative's "standard" semi-annual tariff and schedule filing to revise its FPPCA rates for partial-requirements members ("PRMs") and for all-requirements members ("ARMs") to become effective April 1, 2008. The second is a request by AEPCO for review of its FPPCA efficacy and implementation of alternate adjustor rates, the subject of this memorandum.

3. On March 28, 2008, AEPCO refiled both its standard semi-annual tariff and schedules to revise its FPPCA rates for April 1, 2008, and its filing to request a review of its FPPCA efficacy and implementation of alternate adjustor rates ($0.014760 per kWh for ARMs,

$0.013050 per kWh for PRMs). These filings were made to correct errors discovered in the February 29, 2008, filings. The error corrections resulted in only a slight increase in the requested ARM adjustor rate and a slight decrease in the requested PRM adjustor rate in comparison with those filed on February 29, 2008.

4. Also on March 28, 2008, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") filed a response to AEPCO's request for review of its FPPCA efficacy and implementation of alternate adjustor rates. SSVEC supports AEPCO's FPPCA efficacy request, but disagrees with AEPCO's methodology to allocate its fuel and purchased power costs to members of the PRM and ARM groups. SSVEC requests the Commission require AEPCO to revise and true-up its allocation methodology in its next semi-annual FPPCA rate filing.

5. On April 1, 2008, Mohave Electric Cooperative, Inc. ("Mohave") filed a response to AEPCO's February 29, 2008, FPPCA rate filings and subsequent revisions to those filings on March 28, 2008. In its filing, Mohave requests the underlying costs and allocation methodologies utilized by AEPCO in calculating the FPPCA be fully reviewed, and that Mohave be allowed to participate in such review.

6. On April 4, 2008, AEPCO, in separate filings, replied to SSVEC's and Mohave's respective responses. AEPCO opposes SSVEC's request to implement a different way of assigning cost responsibility among its members prior to the next rate case. AEPCO also opposes Mohave's request to review AEPCO's FPPCA underlying costs and allocation methodologies at this time. AEPCO requests that the Commission deny the SSVEC and Mohave requests, and suggests that a review of the FPPCA in AEPCO's planned 2009 rate case would be a more appropriate forum to examine these concerns.

7. On April 8, 2008, SSVEC filed a response to AEPCO's reply. SSVEC believes that it is not necessary or appropriate for it to have to wait until the conclusion of the next rate case before AEPCO allocates costs between its members consistent with actual fuel and purchased power expenses attributable to the respective members and classes. SSVEC requests that the Commission issue an Order in accordance with SSVEC's initial response.

. . .

BACKGROUND

8. AEPCO is a non-profit, member-owned generation cooperative that supplies all or most of the power and energy requirements of its five Arizona and one California member distribution cooperatives. AEPCO supplies all requirements to the following members: Anza Electric Cooperative, Inc. (California); Duncan Valley Electric Cooperative, Inc.; Graham County Electric Cooperative, Inc.; and Trico Electric Cooperative, Inc. Mohave and SSVEC are its only partial-requirements members. SSVEC had previously been an ARM but became a PRM effective January 2008.

9. Prior to Commission Decision No. 68071 in AEPCO's last rate case, AEPCO did not have an FPPCA. The rate case Decision provided for AEPCO to add an adjustor component to its rates with an initial adjustor rate reset from zero to occur on October 1, 2006. Decision No. 68594, March 23, 2006, accelerated the initial reset of AEPCO's FPPCA rate by six months from October 1, 2006, to April 1, 2006. Decision No. 68071 provided for the FPPCA rate to be reset every six months on April 1 and October 1 of each year.

10. In establishing the AEPCO adjustor mechanism in Decision No. 68071, the Commission also acknowledged the possibility that the recovery of fuel and purchased power costs under the FPPCA may be outpaced by the rate of future fuel and purchased power cost increases. For that reason, the Commission included an additional provision in the Order allowing AEPCO to request the Commission review the efficacy of its FPPCA when AEPCO submits any semi-annual FPPCA report.

11. On February 27, 2007, AEPCO requested that the Commission review the efficacy of the FPPCA because of its concern that the FPPCA was not allowing it to make meaningful progress in reducing its under-collected bank balance. Staff noticed that the bank balance was beginning to decline and did not recommend action on AEPCO's request at that time so that it could be determined if the adjustor rate was going to significantly reduce the under-collection without further action by the Commission. Indeed, the bank balance did decline each of the seven months beginning in December 2006 and continuing through June 2007. AEPCO, also noting that

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progress was being made in recovering the bank balance, withdrew its request for FPPCA efficacy review on September 13, 2007.

12. Because of a two- to three-month lag in the data, neither Staff nor AEPCO recognized that the monthly FPPCA reports would reflect another precipitous bank balance increase beginning in July 2007 and climbing to a record high of $11.8 million under-collected in September 2007.

13. AEPCO's FPPCA bank balance has been under-collected every month since the inception of the adjustor. Separate adjustor rates are set for ARM and PRM members, and separate bank balances are maintained for these two classifications. However, the two classifications of bank balances tend to follow similar patterns of fluctuations. Table 1 illustrates the combined ARM and PRM FPPCA bank balances from September 2005 through January 2008, the most recent FPPCA report available.

14. Table 1

Arizona Electric Power Cooperative, Inc.
Monthly FPPCA Bank Balance
(millions of $)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
2005									$1.7	$3.7	$7.7	$7.4
2006	$7.9	$7.3	$7.0	$5.2	$4.6	$5.3	$7.1	$8.4	$8.6	$10.0	$11.2	$11.1
2007	$10.1	$8.7	$7.4	$6.3	$5.9	$5.8	$8.1	$11.0	$11.8	$10.6	$9.2	$5.6
2008	$4.9											

Positive number represents under-collected balance

15. Decision No. 68071 established separate base costs of purchased power for the ARM and the PRM classes of membership. The ARM base cost of purchased power was set at $0.016870 per kWh and the PRM base cost of purchased power was set at $0.016030 per kWh. Table 2 depicts FPPCA rates that have been used by AEPCO since the inception of the adjustor mechanism with other adjustor information.

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16. Table 2

Arizona Electric Power Cooperative, Inc. Fuel and Purchased Power Rate Components (August 2005 through Present and Proposed)		
	All-Requirements Members	**Partial-Requirements Members**
Base Cost of Purchased Power:	$0.016870 per kWh	$0.016030 per kWh
FPPCA Rate:		
August 2005 – September 2005	$0.000000 per kWh	$0.000000 per kWh
October 2005 – March 2006	$0.000000 per kWh	$0.000000 per kWh
April 2006 – September 2006	$0.008810 per kWh	$0.007280 per kWh
October 2006 – March 2007	$0.009440 per kWh	$0.008400 per kWh
April 2007 – September 2007	$0.013130 per kWh	$0.011980 per kWh
October 2007 – March 2008	$0.012680 per kWh	$0.012080 per kWh
April 2008 – September 2008	$0.012720 per kWh	$0.011050 per kWh
Proposed Alternate Rates	$0.014760 per kWh	$0.013050 per kWh

ANALYSIS

17. The instant AEPCO request for review of FPPCA efficacy and implementation of alternate adjustor rates was docketed on February 29, 2008, and amended on March 28, 2008, about one year after the Cooperative's initial efficacy request on February 27, 2007. The request in 2007 and the current request are similar. Again, AEPCO cites the reason for its request is the persistent under-collection of its fuel and purchased power expenses. The relief sought in both cases is to make a minor change to an adjustor component calculation that would accelerate the recovery of the accumulated bank balance.

18. AEPCO's semi-annual adjustor rate calculation for its ARM class of customers and for its PRM class of customers consists of two parts. The Power Cost ("PC") component consists of the Commission-allowed fuel, purchased power, and wheeling costs in dollars per kWh rounded to the nearest one-thousandth of a cent ($0.00001). This component is based on a rolling historical 12 months of fuel, purchased power, and wheeling costs for each class divided by the kWh energy sales to that same class during the same 12 months. The Bank Account ("BA") component of the adjustor rate consists of over-collected or under-collected allowable accumulated fuel and purchased energy costs in dollars per kWh, rounded to the nearest one-thousandth of a cent ($0.00001). This component of the adjustor rate for ARMs and for PRMs consists of the under-recovered or over-recovered bank balance dollars divided by the same 12-months kWh energy

sales figure that was used in the PC component. The adjustor rate for the ARM class and for the PRM class are calculated by adding the PC and the BA components for the respective class, and subtracting the respective base cost of purchased power.

19. The change AEPCO is requesting is to calculate both a new ARM adjustor rate and a new PRM adjustor rate that would achieve a more rapid amortization of the bank balance. The way AEPCO proposes to accomplish this is to slightly alter the BA calculation of the adjustor rate by dividing the over-collected or under-collected bank balance dollars by the most recent six months of kWh energy sales, instead of 12 months kWh energy sales, as has been done in the past. The PC component calculation methodology would not change.

20. Staff believes that the calculation methodology changes proposed by AEPCO are reasonable, and that they would accelerate the recovery of bank balances to some extent. As they are still historical-based, they may not totally remove AEPCO's under-collected balance in an environment of increasing fuel and purchased power costs. The proposed changes could also have the effect of slightly increasing the volatility of the adjustor rates from one six-month period to the next in the short term. However, as the bank balance becomes smaller, the amount of the adjustor rate BA component will decrease in magnitude, and thus mitigate any volatility increase.

21. Because Staff believes the calculation method changes are reasonable, Staff's investigation, therefore, concentrates on 1) the appropriateness of changing the ARM and PRM adjustors at this time, and 2) the necessity or desirability to change the ARM and PRM adjustors.

22. Decision No. 68071 authorized AEPCO's adjustor. Finding 36 of that Order stated in part, "we are concerned with the possibility that AEPCO's recovery of fuel and purchased power costs under Staff's proposed FPPCA may nonetheless be outpaced by the rate of future fuel and purchased power cost increases. Therefore, we will approve the FPPCA on the terms agreed to by the parties, but in so doing, we will attach an additional condition allowing AEPCO to request the Commission to review the efficacy of the FPPCA when AEPCO submits any semi-annual FPPCA report as required elsewhere in this Decision." The fifth and sixth ordering paragraphs stated "IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall amend its tariffs to include a Fuel and Purchased Power Adjustor as described herein." "IT

IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. may file a request that the Commission review the efficacy of the FPPCA with Arizona Electric Power Cooperative, Inc.'s submission of any semi-annual FPPCA report required by this Decision."

23. AEPCO's request for review of FPPCA efficacy was filed with the Cooperative's semi-annual FPPCA report filing. Staff, therefore, believes AEPCO's request is in accordance with Decision No. 68071. Staff believes that the intent of the FPPCA provisions of the Decision was to allow timely recovery of fuel and purchased power costs without the time and expense of a full rate proceeding. To the extent that the proposed changes are only minor adjustments to the current methodology to allow the FPPCA to better accomplish its objectives, Staff believes that implementation of the proposed changes can be accomplished through this procedure.

24. In examining the need for a change in the adjustor rate calculation to accelerate the recovery of accumulated bank balances, Staff observed that AEPCO's bank balance has improved significantly in recent months (see Table 1). The following observations are noted:

1. AEPCO's bank balance has dropped each month from its high point of $11.8 million under-collected in September 2007 to $4.9 million under-collected in January 2008, the most recent report available.

2. The January 2008 bank balance of $4.9 million is less than half of the January 2007 bank balance of $10.1 million.

3. The bank balance in 2007 dropped each month from its January level through June 2007, as it did from January 2006 through May 2006.

25. In spite of the recent gains, carrying a bank balance of even $4.9 million is a continuing burden on the Cooperative and its customers; however, carrying a $4.9 million balance is better than carrying an $11 million balance. The persistence of the bank balance demonstrates that the current adjustor rate methodology, while helping to lessen the burden, will not reduce the bank balance to near zero for a significant length of time in a continuing environment of escalating fuel and purchased power costs. It is clear that AEPCO's proposed change to accelerate recovery will not change the inherent lagging tendency of the methodology. A completely different methodology may be needed to accomplish that, but that type of change is not an issue for the instant proceeding. However, implementation of AEPCO's proposed changes to the amortization

of the bank balance could speed the recovery of the bank balance and lessen its burden on the Cooperative and its customers. Staff concludes that adopting the proposed change could help mitigate the persistent bank balance problem, but will not completely resolve the problem.

26. The bank balance demonstrates some seasonal fluctuation and can be expected to generally decrease from November through early summer, and then to increase through the summer and fall months, all other variables being constant. Staff believes this is a net result of fluctuations in kWh volumes and seasonal increased costs of power during periods of higher demand. However, the dynamics of AEPCO's projected bank balances in the future is driven primarily by increases in the Cooperative's future cost for fuel and purchased power based upon new long-term purchased power contracts and fuel costs. AEPCO has three new long-term purchased power contracts totaling 25 to 40 MW beginning in May 2008, all at significantly higher cost than its long-term contracts that just expired. The Cooperative estimates its new purchased power contracts are approximately 18 percent higher in cost than the contracts it used in 2007. AEPCO's long-term coal contract expires in 2008 and may result in coal and coal transportation cost increases of 30 percent to 40 percent beginning January 2009. The Cooperative has the capacity to generate about 350 MW from coal and about 95 MW from gas.

27. Following is a forecast of AEPCO's bank balance using both the current amortization and the proposed accelerated amortization methods. The numbers were developed by AEPCO and are based on AEPCO board-approved financial forecast rates. Known new contract fuel and purchased power prices, and estimated prices where not yet under contract, have been factored into the forecasts. The forecast is based on the actual known historical bank balance number for January 2008.

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28. Table 3

Arizona Electric Power Cooperative, Inc. Forecast FPPCA Bank Balances - Current Method and Proposed Method Actual January 2008, Forecast February 2008 – December 2009 (millions of $)				
	Month	**Current Method**	**Proposed Method**	**Reduction Using Proposed Method**
2008	January	$4.9	$4.9	
	February	$3.1	$3.1	
	March	$4.4	$4.4	
	April	$5.5	$5.1	$0.4
	May	$4.9	$4.1	$0.8
	June	$6.2	$4.9	$1.3
	July	$8.1	$6.3	$1.8
	August	$9.9	$7.5	$2.4
	September	$10.9	$8.0	$2.9
	October	$9.6	$6.4	$3.2
	November	$7.8	$4.4	$3.4
	December	$5.7	$1.9	$3.8
2009	January	$7.3	$3.1	$4.2
	February	$8.5	$4.0	$4.5
	March	$12.4	$7.6	$4.8
	April	$12.9	$8.3	$4.6
	May	$14.6	$10.2	$4.4
	June	$17.4	$13.2	$4.2
	July	$21.3	$17.3	$4.0
	August	$25.1	$21.3	$3.8
	September	$27.5	$23.9	$3.6
	October	$26.1	$21.8	$4.3
	November	$24.4	$19.4	$5.0
	December	$22.9	$17.2	$5.7

29. Staff requested and received a second analysis from AEPCO comparing the bank balance that has actually accumulated from the inception of the adjustor mechanism through 2007 to that which it would have been, had the Cooperative's accelerated method of recovering its bank balance been in effect the entire period. The results are that the bank balance in December 2007 would have been $0.5 million instead of $5.6 million. The interest cost to carry the bank balance

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at prevailing RUS[1] rates over the period was $1,233,895.03. Had the accelerated bank balance amortization method been used over the same period, it would have been applied to lower bank balances each month resulting in a lower interest cost of $713,600.46 and a savings of $520,294.57 in interest expense. The interest saved could have resulted in slightly lower rates for AEPCO's members in the longer term, as those interest expenses ultimately are borne by ratepayers.

30. The analysis provided by AEPCO also demonstrated that the adjustor rates need to be slightly higher initially to provide the accelerated recovery of the bank balance, but by the end of the analysis, the adjustor rates are lower because there is lower bank balance to be recovered through the adjustor rates. This is consistent with AEPCO's current proposal that requests alternate adjustor rates that are about 2 mills higher than current adjustor rates as shown in Table 4.

31. Table 4

Arizona Electric Power Cooperative, Inc. Proposed FPPCA Rate Increase (Proposed Alternate Adjustor Rates over Current Adjustor Rates)		
	All-Requirements Members	**Partial-Requirements Members**
October 2007 – March 2008	$0.012680 per kWh	$0.012080 per kWh
April 2008 – September 2008	$0.012720 per kWh	$0.011050 per kWh
Proposed Alternate Rates	$0.014760 per kWh	$0.013050 per kWh
Proposed Increase Over April	$0.002040 per kWh	$0.002000 per kWh
Residential Bill at 750 kWh	+$1.53 per Month	+$1.50 per Month
Proposed Increase Over Oct.	$0.002080 per kWh	$0.000970 per kWh
Residential Bill at 750 kWh	+$1.56 per Month	+$0.73 per Month

32. The effect of AEPCO's proposed alternate adjustor rates on ultimate residential customers' bills at 750 kWh per month would be about $1.50 per month when compared to the rate currently in effect. However, the April 1 adjustor rate currently in effect has not yet trickled down to ultimate residential customers of AEPCO's distribution members. When compared to the October 1 adjustor rate, the proposed increase is similar for the all-requirements members' customers and is about half that amount for partial-requirements members' customers.

33. Because of the minor increase in the all-requirements adjustor rate on April 1, the decrease in the partial-requirements adjustor rate for the same time period, and the possibility of

[1] Residential Utilities Service – a federal government agency under the U.S. Department of Agriculture charged with helping provide reliable affordable electricity to rural areas. One RUS program makes direct loans and loan guarantees to electric utilities to serve customers in rural areas.

new alternate rates based on a Commission Decision in this matter, Staff and AEPCO agreed that it would be best to delay notice to customers until after the Commission acts on this item. Under these circumstances where two sets of revised adjustor rates may take effect in rapid succession, both parties believe it is consistent with the Plan for Administration to delay the notice and to send only one notice reflecting the final approved adjustor rates. Sending one notice reflecting the final approved adjustor rates will not only reduce costs, but will also avoid possible customer confusion associated with receiving two different notices in short succession.

34. Staff believes at least three reasons exist that suggest this would be a good time to implement alternate adjustor rates based on the accelerated bank balance amortization method, if the Commission were inclined to do so: 1) the adjustor rates implemented April 1 were almost flat for all-requirements members and decreased for partial-requirements members, so the impact to customers of adding approximately two mills to each rate for accelerated bank balance amortization would not be as great as it may have been if added on to an already sizeable increase, and 2) AEPCO's new purchased power contracts, which are approximately 18 percent higher in cost than the contracts used in 2007, will be used beginning in May 2008 to meet summer peaking needs, and 3) historically, July through November is a period of seasonally increasing under-collected bank balances.

STAFF SUMMARY AND RECOMMENDATION

35. Staff does not believe that AEPCO's proposed accelerated amortization of the accumulated bank balance in the FPPCA calculation will completely eliminate AEPCO's persistently under-collected bank balance problem. However, Staff does believe adoption of this minor change in the FPPCA calculation will help recover the accumulated bank balances more rapidly. Staff further believes that this is a measure that can be instituted now to help mitigate the lingering bank balance problem, and thus, reduce interest charges that customers would ultimately have to pay. Furthermore, Staff does not believe that implementation of the accelerated method would have long-term negative consequences.

36. Staff believes that implementation of AEPCO's proposed accelerated bank balance calculation method will decrease under-collected bank balances, decrease the Cooperative's

interest expense, lower the cost of service by lowering interest expense and ultimately lowering the adjustor rates, and slightly decrease short-term borrowing pressures on the Cooperative.

37. Therefore, Staff has recommended that the Commission authorize AEPCO to change its adjustor rates to the alternate adjustor rates of $0.014760 per kWh for its all-requirements members and $0.013050 per kWh for its partial-requirements members, effective June 1, 2008 (such rates calculated using the accelerated bank balance amortization method described in Finding of Fact No. 19 herein). Staff has also recommended that AEPCO continue to calculate its new adjustor rates each six months using its accelerated bank balance amortization method described in Finding of Fact No. 19 herein, until the FPPCA is replaced or modified.

COSTS AND COST ALLOCATION METHODS

38. SSVEC and Mohave have filed responses to AEPCO's request for review of its FPPCA efficacy and implementation of alternate adjustor rates. Both SSVEC and Mohave achieved intervenor status in AEPCO's last rate case, filed in this docket, which set up AEPCO's FPPCA as described in Decision No. 68071. Both SSVEC and Mohave are partial-requirements AEPCO members. Both have expressed concern with the method by which AEPCO allocates fuel and purchased power costs between all-requirements and partial-requirements members. The PRM members believe AEPCO's method allocates costs without regard to cost differences arising from the time the kWh are taken.

39. SSVEC believes that AEPCO is allocating higher natural gas fuel costs to the PRMs when the PRMs are scheduling primarily lower cost coal-generated power, resulting in the PRMs paying higher rates and subsidizing the ARMs.

40. SSVEC requests the Commission issue an order granting AEPCO's efficacy request for alternate rates, but subject to true-up. It also requests the Commission require AEPCO to file as part of its September 1, 2008, filing for the October 1, 2008 adjustor rate reset 1) a fully detailed methodology that fairly and appropriately allocates fuel and purchased power costs between the individual members of the PRM classes and individual members of the ARM classes consistent with actual fuel and purchased power expenses attributable to the respective members and classes, and 2) true-up calculations adjusting the fuel bank account as if the above methodology had been

in effect on April 1, 2008 (the date that AEPCO started charging SSVEC for fuel and purchased power as a PRM pursuant to Decision No. 70105.) SSVEC believes it is not necessary or appropriate for it to have to wait until the conclusion of AEPCO's next rate case before the Cooperative allocates costs between its members consistent with actual fuel and purchased power expenses attributable to the respective members and classes.

41. Mohave does not request that the Commission delay implementation of any of the relief requested by AEPCO in its efficacy request. It does, however, request additional affirmative relief. In particular, Mohave requests the underlying costs and allocation methodologies utilized by AEPCO in calculating the FPPCA be fully reviewed and that Mohave be allowed to participate in such review, to ensure that the FPPCA is being implemented in a fair and equitable manner consistent with Decision No. 68071 and AEPCO's contractual obligation to Mohave. Mohave requests the Commission 1) Order AEPCO to participate in a complete review of the operation of its FPPCA and authorize Mohave to participate in such review with Staff, and 2) grant such further relief as the Commission deems just and appropriate.

42. AEPCO has replied to the responses of both SSVEC and Mohave stating 1) that their requests are an impermissible collateral attack on the rate case Decision, 2) that AEPCO does not currently have, and will not have for about a year, the ability to track and allocate data in the way SSVEC and Mohave think costs should be assigned, 3) that the use of revised FPPCA adjustors would create an inherent mismatch between base and adjustor rates, and 4) that the Commission has already ordered a review of AEPCO's FPPCA in next year's rate case, and that forum is the appropriate and legally required manner in which to take up such a review. AEPCO requests that the Commission deny the SSVEC and MEC requests and authorize, as soon as possible, revised adjustor rates of 14.76 mills per kWh and 13.05 mills per kWh for its all- and partial- requirements members respectively.

43. Both SSVEC and Mohave are generally supportive of AEPCO's request for a FPPCA efficacy review and implementation of alternate rates, and Mohave specifically stated that it was not requesting the Commission delay implementation of any of the relief requested by AEPCO. Staff believes that AEPCO's application needs to be dealt with in a timely fashion for

reasons stated elsewhere in this document, and that the scope of the investigation that may be needed to adequately research and resolve the issues brought forward by SSVEC and Mohave could take many months.

44. Staff further believes that the concerns brought forward by SSVEC and Mohave deserve a full and comprehensive review by all parties that have an interest in AEPCO's FPPCA. Staff is concerned that issues under question strike at some of the basic underlying principles of AEPCO's FPPCA methodology. If problems are found, potential solutions could require major changes to the adjustor mechanism and could result in shifting potentially millions of dollars from one class of membership to the other class of membership. AEPCO is required by Decision No. 68071, August 17, 2005, to file a rate case six months after SSVEC has completed a full calendar year as a partial-requirements member, or not later than five years after the effective date of Decision No. 68071, whichever is earlier. This would suggest that AEPCO must file a rate case by July 1, 2009. Staff believes the issues brought up by SSVEC and Mohave could more appropriately be addressed in a rate case in which all interested parties could participate.

CONCLUSIONS OF LAW

1. AEPCO is certificated to provide electric service as a public service corporation in the state of Arizona.

2. The Commission has jurisdiction over AEPCO and of the subject matter in this Application.

3. The Commission, having reviewed the application and Staff's Memorandum dated April 22, 2008, concludes that it is in the public interest to authorize AEPCO to charge alternate adjustor rates calculated using AEPCO's accelerated bank balance amortization method, and to continue the use of its accelerated bank balance amortization method until AEPCO's FPPCA is replaced or modified.

ORDER

IT IS THEREFORE ORDERED that Arizona Electric Power Cooperative change its adjustor rates to the alternate adjustor rates, calculated using the accelerated bank balance

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amortization method, of $0.014760 per kWh for its all-requirements members and $0.013050 per kWh for its partial-requirements members, effective June 1, 2008, as discussed herein.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative continue to calculate its new adjustor rates each six months using its accelerated bank balance amortization method described in Finding of Fact No. 19 herein, until further order of the Commission.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this ______day of __________________, 2008.

BRIAN C. McNEIL
Executive Director

DISSENT: __________________________

DISSENT: __________________________

EGJ:JDA:lhm\JMA

SERVICE LIST FOR: Arizona Electric Power Cooperative, Inc.
DOCKET NOS. E-01773A-04-0528 and E-04100A-04-0527

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